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Report No.P-7467-COB

REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT

OF SDR 30.0 MILLION (US$37.5 MILLION EQUIVALENT)

TO

THE REPUBLIC OF CONGO

FOR A

POST-CONFLICT ECONOMIC REHABILITATION CREDIT

July 6, 2001

CURRENCY EQUIVALENT

Currency Unit	=	CFA Franc (CFAF)*
US$1 (Average 2000)	=	709
US$1 (July 2, 2001)	=	775

* The CFAF is pegged to the French Franc (FF) at the rate of FF 1=CFAF 100

WEIGHTS AND MEASURES

Metric System

GOVERNMENT FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFD	*Agence Française de Développement*
AIDS	Acquired Immune Deficiency Syndrome
BEAC	*Banque des Etats de l'Afrique Centrale*
CAP	UN Consolidated Inter-Agency Appeal
CFAA	Country Financial Accountability Assessment
DRC	Democratic Republic of Congo
ERRC	Economic Rehabilitation and Recovery Credit
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
HIV	Humane Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IDF	Institutional Development Fund
IMF	International Monetary Fund
NGO	Nongovernmental Organization
OCHA	Office for the Coordination of Humanitarian Affairs
PCF	Post-Conflict Fund
PER	Public Expenditure Review
PIPC	*Programme Intermédiaire Post-Conflit*
SNPC	*Societé Nationale de Pétrole du Congo*
TSS	Transitional Support Strategy
UNDP	United Nations Development Program

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CONGO

POST-CONFLICT ECONOMIC REHABILITATION CREDIT

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REPUBLIC OF CONGO

POST-CONFLICT ECONOMIC REHABILITATION CREDIT

CREDIT SUMMARY

Borrower:	Republic of Congo
Implementing Agency:	Ministry of Finance, Economy, and Budget.
Amount:	SDR 30.0 million (US$37.5 million equivalent)
Terms:	Standard IDA terms, with 40 years maturity
Commitment Fee:	0.50 percent on undisbursed Credit balances, beginning 60 days after signing, less any waiver
Disbursement:	The proposed credit will be disbursed in a single tranche of US$37.5 million. Signing of the proposed Credit will not take place until all arrears have been cleared. Release of the proposed Credit's proceeds will happen only after effectiveness.
Net Present Value:	Not applicable.
Map:	IBRD 28865
Project ID No.:	PE-PO-073316-LN
Background and Description:	The proposed Post-Conflict Economic Rehabilitation Credit (Post-Conflict ERC) is an integral part of the Bank's Transitional Support Strategy (TSS) considered by the Board on January 16, 2001, to assist the Republic of Congo in the transition from war to sustainable peace, in the context of the Government's 2000-2002 Interim Post-Conflict Program. It is the first operation of the TSS that would support implementation of: (i) key structural reforms; and (ii) improved governance and better transparency in the management of the country's natural wealth and public funds. These reforms are needed to stabilize and bring about the economic rehabilitation that would pave the way for broad-based poverty reduction, and a higher and sustained growth path in the years ahead, after three decades of centrally planned economic management and almost a decade of wars. Proceeds of the proposed Credit would provide critical funds necessary to assist the Republic of Congo with foreign exchange cash immediately after arrears to the World Bank have been paid.

Rationale for IDA involvement:

The Bank's involvement is justified by the need to: (i) address the immediate post-conflict needs of the country; (ii) provide the development leadership needed for the reengagement of the international community in a country in the delicate and troubled Central Africa region; and (iii) focus on the sustainable development and poverty reduction agenda of reforms envisaged under the TSS. In addition, the ceasefire and complete cessation of hostilities since 1999, and the ongoing progress toward peace, provide the international community with a window of opportunity to (i) consolidate the home-grown and self-financed national reconciliation process; (ii) support the country's economic recovery and stabilization; and (iii) pave the way for broad-based poverty reduction and growth in the years ahead, after decades of inappropriate policies, poor governance, and repeated social conflicts. The proposed credit will complement support provided by other donors including the IMF, the EU, AfDB, the UN system, and bilateral donors. The Credit will be implemented in parallel with the Transparency and Governance Capacity Building project, which is aimed at providing technical assistance to increase transparency and improve governance in the use of petroleum and forestry resources, as well as management of public funds. Without the cash flow provided by the proposed operation, the Republic of Congo would find it very difficult to clear its arrears to the Bank, and access to Bank financial and other support would not be restored.

Government Commitment:

Since 1998, Government has shown commitment to macroeconomic and structural reforms. This is illustrated by the Government's resolve to vigorously pursue reforms launched by the previous regime (e.g., divestiture of all Government-owned forestry companies, privatization program for all commercial banks and key public enterprises, and reform of business regulatory framework), despite the lack of formal programs with the Bank and IMF. Commitment at the highest level of the country's leadership and the entire Government, as well as support from the civil society, has been reaffirmed on several occasions.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT TO THE REPUBLIC OF CONGO FOR A POST-CONFLICT ECONOMIC REHABILITATION CREDIT

I. INTRODUCTION

1. This report seeks approval to extend a Post-Conflict Economic Rehabilitation Credit (Post-Conflict ERC) to the Republic of Congo (RoC), for SDR 30.0 million, the equivalent of US$37.5 million, on standard International Development Association (IDA) terms, with a maturity of 40 years. The proposed Credit is an integral part of the Bank's Transitional Support Strategy (TSS) considered by the Board on January 16, 2001, to assist Congo in the transition from war to peace. The proposed Post-Conflict ERC would provide urgently needed quick disbursing funds that are critical to support the Government of Congo's 2000-2002 Interim Post-Conflict Program. Specifically, the proposed Post-Conflict ERC would: (a) support the Government's effort to pursue and deepen structural reforms launched by the previous regime, but interrupted by the resurgence of war at the end of 1998, with special attention given to the banking sector deeply affected by the events; and (b) build the foundations for increased transparency, improved governance, and accountability in public resources management.

2. Actions envisaged under the proposed Credit would help the economy's rehabilitation and result in higher and sustained growth in non-oil real GDP, estimated to recover to 5.8 percent in 2001 and 6.1 percent in 2002. This estimated growth performance would come from sustained macroeconomic stability, higher private investments, lower cost of doing business, and a broader revenue base for financing larger and more effective public expenditures programs. Consolidating progress toward a sustainable peace, and the improved delivery of essential services, would also help reduce the poverty incidence, while greater dynamism of a revitalized private sector would help expand income-earning opportunities for the poor. Proceeds of the proposed Credit would provide critical funds necessary to assist the Republic of Congo with the foreign exchange cash flow immediately after the arrears to the World Bank have been paid.

II. COUNTRY BACKGROUND AND RECENT DEVELOPMENTS

3. Since independence in 1960, Congo (Brazzaville) has had a troubled history characterized by ethnic strife, civil war, institutional instability, and poor governance. Ruined by three decades of poor management under a centrally planned economy and Marxist inspired single-party rule, and nearly a decade of violent conflict, the Republic of Congo has experienced economic

performance well below its potential. Social and economic conditions deteriorated sharply under the centrally planned economy, with real GNP per capita falling by more than half, from US$1300 in 1982 to US$630 in 2000. Social and poverty indicators worsened in the last decade, as the country has been torn by political instability and a series of civil wars (1993-94, 1997, and 1998-99). Despite increased production and higher prices in the oil sector in the period 1997-99, real GDP was stagnant in the same period. Because virtually all oil production is offshore and represented, on average, more than 60 percent of GDP in the 1997-99 period, real GDP stagnation in the same period reflects the sharp contraction (-19 percent) in the non-oil sector, as a result of the conflict-inflicted damage to domestic productive capacity.

4. While external developments were a factor underlying the poor economic performance observed over the last 40 years, the more fundamental reasons for this poor performance were inappropriate policies, weak economic management, poor governance, and civil war. All conflicts in the last decade involved human suffering on a large scale. In addition, the Republic of Congo (Brazzaville) has been confronted with unrest at its border with the Democratic Republic of Congo (DRC), and a sizable number of refugees (more than 100,000 people) has put additional strain on the country's limited resources.

5. In the last year, with the signing of ceasefire and end of hostilities agreements with key military commanders of the defeated opposition, the security situation has improved dramatically in Brazzaville and throughout the country. The challenge is now for the present regime to make the dual transitions from civil war to sustainable peace, and from a state-controlled economy to one that is market based. So far, in an effort to alleviate the plight of the poor and meet the most urgent social and rehabilitation needs, Congolese authorities have focused their efforts on humanitarian assistance and implementation of the peace process. These efforts culminated on April 14, 2001 in a national dialogue on a new constitution and a convention for peace, and national reconciliation of Congolese from all ethnic backgrounds and all political sensitivities. With the return to normalcy, Congolese authorities are progressively shifting their focus toward reconstruction and rehabilitation, along with reduction of internal and external macroeconomic imbalances. Among the priorities are: tackling unemployment, re-launching productive activities, and establishing a business-friendly regulatory framework to promote private sector development.

III. IMPACT OF THE CONFLICT

6. Whereas the wars of 1993-94 and 1997 were essentially limited to Brazzaville, the war of 1998-99 brought large-scale destruction to southern Congo (except the area around Pointe-Noire), with dramatic social and humanitarian cost, widespread economic disruption, and weakened institutional and human capacities.

7. **Social and Humanitarian Impact**. The 1998-99 war created an unprecedented humanitarian catastrophe, with 300,000 residents of Brazzaville fleeing the city and seeking refuge in the forests, where they lived in appalling conditions for up to one year. At the height of the 1998-1999 conflict, some 810,000 people, or almost a third of the population, were displaced, of which 30,000 sought refuge in Gabon or the Democratic Republic of Congo (DRC). Seventy percent of those internally displaced were malnourished. Many people lost all their belongings

and suffered great physical and psychological hardship. The country was pillaged on both sides of the front line. Iron sheets were stolen from houses and churches, fields were burned, and health centers and other public buildings were looted. With the return of most displaced persons to their original residences, needs have shifted away from emergency humanitarian interventions toward social reintegration, infrastructure rehabilitation, and reconstruction.

8. **Economic Impact.** The preliminary estimate of damage inflicted by the last two civil wars is CFAF 1600 billion (about US$2.6 billion), well exceeding the size of the 1999 GDP. Non-oil GDP, a better indicator to assess the impact of the war on domestic productive capacity (as oil is produced essentially offshore), declined by 19 percent between 1996 and 1999. By the time of the outbreak of the 1997 civil war, Congo's economy had already been weakened by years of poor economic management and governance, as well as the bloody 1993-94 conflict and social unrest. Most of the country's basic infrastructure has been destroyed or is in a state of collapse due to lack of maintenance. It is estimated that 50 percent of agricultural tools were destroyed and 75 percent of livestock lost. Many archives were destroyed or looted. The distribution network, already weak before the war, collapsed, and most feeder roads are impassable. Basic public services, including telecommunications, water and electricity services, road and rail transportation were severely disrupted. The railway line between Pointe Noire and Brazzaville, the economic umbilical cord of the country, was destroyed at several points. The war has also taken its toll on schools and health care facilities.

9. The rehabilitation needs of the country, including in basic infrastructure (railway, roads, electricity, water, and telecommunications), are immense. Individual needs include the reconstruction of houses and the provision of means of production lost during the war, including tools, seeds, and livestock. Private business has also been severely affected by the upheavals caused by the unstable security situation in the country. The banking sector was strongly affected and the commercial banks came out of the events insolvent and illiquid. Most bank deposits were de facto frozen and the banks had no resources to contribute to the regeneration of economic activity. For communities, the needs include the rehabilitation of every form of economic and social infrastructure, as well as the resources for the proper functioning of this infrastructure. To date, the Government has rehabilitated the railway line, and donors, UN agencies, and NGOs have initiated limited rehabilitation activities.

10. **Institutional and Capacity Impact.** The civil unrest and insecurity created by the repetitive conflict have significantly weakened Congo's institutional and human capacities. The disruption of the country's administrative capacity has been severe, with losses of manpower, records, and IT equipment for most institutions. Most public offices and buildings were burned down, destroyed, vandalized, or pillaged in 8 of the country's 11 regions. There was a heavy loss of vehicles belonging to the Government, private and public institutions, and civilian populations. Many professionals in key areas left the country, leaving a vacuum in critical areas of service delivery.

IV. GOVERNMENT RESPONSE AND MEDIUM-TERM REFORM PROGRAM

11. Following the 1998-99 war, and in order to create the social conditions that would allow the population to fully participate in the normalization of political life and economic

reconstruction, the Government in early 2000 prepared a Medium-Term Interim Post-Conflict Program (PIPC) for the 2000-2002 period. The PIPC aims to address immediate post-conflict needs, revitalize the economy, and build the foundation for sustainable economic and social development under a market-based economy. The IMF endorsed the Government's program, on November 17, 2000, under the IMF's Emergency Post-Conflict Assistance Program.

12. The Government's PIPC is centered around four main objectives: (a) pursuing structural reforms through privatization cum restructuring of the country's three commercial banks, privatization of the five largest public enterprises, and improved regulatory framework for private sector business; (b) laying the foundation for better governance and increased transparency in management of the country's natural wealth (oil and forestry) and public funds; (c) rebuilding and strengthening the country's administrative and institutional capacity, to enable growth in the non-oil sector to resume; and (d) improving the macroeconomic framework and the social climate to create job opportunities, enhance production capacity, and promote growth.

A. Structural Reforms

13. To lay the foundation for higher and sustainable growth in the years ahead, under a market-based economy, Congolese authorities aim to increase the private investment response and allow efficient business operations in Congo. To this end, they will pursue privatization cum restructuring of all three commercial banks and key public utilities (water, electricity, telecommunications, railway, oil products distribution), rationalization of the business regulatory framework, and improved business incentives. The overall aims of the program are to remove the major policy-related and institutional impediments to private sector development in a coherent and transparent manner.

14. Actions Already Taken. The Government has already privatized all forestry companies and some consumer good producing companies (mill company, animal food and livestock equipment company). In addition, the Government recently finalized privatization of downstream activities in the oil/petroleum sector with the dismantling of the former national oil company, Hydrocongo, and the takeover of downstream oil distribution by foreign private oil companies (TotalFina and Shell). Preparatory work for privatization in other sectors, including water, electricity, telecommunications, railroad, and hotels, is well advanced. Special attention is being given to restructuring the banking sector, a prerequisite for the restoration of a working payment system, macroeconomic stability, and private sector development. A commercial bank, the *Union Congolaise des Banques* (UCB), has already been taken over by a foreign private investor, and its restructuring finalized with the split of the bank into a healthy unit taken by the foreign private investor, and a liquidation structure transferred to a Government's agency, the *Caisse Congolaise d'Amortissement,* CCA. With Bank assistance, Government has also drafted new regulatory frameworks for private sector investments in key areas (water and electricity code, telecommunication code, and forestry code). An investment chart, in harmony with regionally agreed CEMAC provisions, has also been finalized with Bank assistance, and a one -stop investment window established. and implementation of regulations to enhance loan recovery by the CCA). The proposed Credit also aims at achieving significant progress toward privatization of key public utilities. In this context the bidding process for the concession or leasing of water and electricity companies has been prepared and a notice sent for advertisement in local and international newspapers; while the notice of request for expression of interest for the private concession of the Congo Ocean railway (CFCO) has also been sent for advertisement in local and international newspapers.

15. **Actions To Be Taken.** In the context of its Medium-Term Program, the Government aims at deepening the ongoing privatization and liberalization process through the following actions:

- Completing privatization of the two other commercial banks (*Caisse pour l'Agriculture et l'Industrie et le Commerce,* CAIC, and the *Banque pour l'Industrie et le Développement du Congo*, BIDC), with the signing of protocol agreements with potential foreign private partners who have expressed their preparedness to participate in the newly restructured and privatized banks (November 2001);

- Strengthening the regulatory framework in key markets by publishing selected implementation decrees of the newly approved forest code; adopting the post and telecommunications code, the water code, and the electricity codes, and enacting their implementation decrees; and reviewing the regulatory framework for port authority services (September 2001);

- Removing policy-related impediments to private sector investments and efficient business operations by finalizing price liberalization and elimination of remaining monopolies, enacting the regional investment code and its implementation decree; effectively implementing a one-stop investment window, and setting up a commission for review of the labor code (September 2001).

B. Governance and Transparency

16. Recognizing the importance of good governance and increased transparency in the promotion of democracy, improvement of the Government's overall budget performance, and effectiveness in the delivery of public services, the Government's program aims at laying the foundation for increased transparency and better management of the country's wealth (oil and forestry) and public funds.

17. **Actions Already Taken.** The Government has already upgraded the budget expenditure control and monitoring system and is now adhering strictly to the principle of consolidated cash management at the Treasury. With the approval of the organic budget law by the National Transition Council in early 2000, the principle of consolidation of cash management at the Treasury has been reinforced, and at the moment only the budget directorate can financially commit the Government. Because oil revenue, the most dominant source of Government revenue (78 percent of total revenue in 2000), has been managed with relative opacity, the proposed Credit aims at clarifying the financial relationships between the state and the national oil management company, the *Societé Nationale des Hydrocarbures du Congo* (SNPC). This substantial improvement in the transparency of oil revenue management in Congo, a major departure from past opaque practices, has been done with the signing on June 29, 2001, of a framework agreement clarifying the relationship between SNPC and the state represented by the

Minister of Finance and Budget and the Minister of Oil Industry. The new framework provides for transparency in all SNPC transactions, regular publication of actual revenues collected from all sources, revenue forecasts, revenues transferred to the Government, publication of all transactions and trade practices, regular audits, and publication of SNPC financial statements.

18. **Action To Be Taken.** As part of its Medium-Term Reform Program, the Government also aims at completing the following actions in the coming months:

- Launch of the first audit the national oil company (SNPC); and subsequent implementation of regular audits;
- Review of public markets procurement rules and practice, and definition of directions for reform;
- Institutionalization of the Auditor General *(Cour des comptes)*, and implementation decree;
- Launch of the first audits of public funds management for a few institutions by the Auditor General;
- Assessment of the status of all logging permits, and design of a strategy and schedule for new allocations and revisions of current permits;
- Assessment of forestry tax collection for the current fiscal year; with indication of pursuits, backlog penalties, and exoneration; with tables by type of taxes collected, company, and permit; as well as projection for next fiscal year;
- Mapping of existing and proposed national protected areas network, with phasing of all steps leading to final protected area status.

C. Administrative and Institutional Capacity Building

19. Given the severe disruption of the country's administrative and institutional capacity, following the two most recent conflicts, a major priority of the Government's Medium-Term Program is the restoration of coordination within the public sector. Policy formulation and coordination were enhanced with the creation of an inter-ministerial committee charged with the coordination and implementation of economic policy, as well as the coordination of all ministries involved. The accompanying Transparency and Governance Capacity Building Project will support and provide technical assistance needed to implement actions envisaged under the proposed Credit, with priority given to Government agencies involved in economic and finance management, and efficient management of oil wealth and forestry resources.

D. Macroeconomic Framework Improvement

20. During the conflicts, fiscal management became disrupted as established budgetary procedures were abandoned and spending priorities shifted toward security and humanitarian

assistance. Without access to domestic or external financing, budget deficits were financed largely through accumulation of arrears. Fiscal deficits spilled over into the balance of payments, increasing the stock of external debt arrears to about 94 percent of GDP by end-1999. The IMF's ongoing Post-Conflict Emergency Assistance Program seeks to support the Government's effort to redress public finance imbalances through more effective expenditure management and improved revenue collection. IMF support will be complemented by the Public Expenditure Review (PER) envisaged under the Bank's Transition Support Strategy. In addition, the accompanying Transparency and Governance Capacity Building project will support and provide technical assistance needed for better expenditure management and improved revenue collection.

21. Satisfactory completion of structural, governance, and transparency reform measures, as agreed with IDA, would be triggers for coming IDA adjustment operations. Successful implementation of the proposed Post-Conflict ERC as well as the ongoing IMF Post-Conflict Program would help eliminate remaining barriers and institutional impediments to private sector led-growth, and pave the way for the formulation, under the Poverty Reduction Strategy Paper (PRSP), of a medium-term program aimed at achieving rapid, sustainable economic growth and further reducing poverty. Such a program would allow Congo to benefit from substantial external debt relief under the Enhanced HIPC initiative, which is critical for alleviating the present heavy debt burden that seriously hampers its economic and social development.

V. DONOR SUPPORT

22. In light of the return to normalcy since the end of hostilities at the end of 1999, and given the worsening poverty situation, Congo's donor partners have shown strong support to the Government in its rehabilitation, recovery, peace, and national reconciliation process. In this context, the Bank led a multi-donor assessment mission in March-April 2000 to organize the reengagement of the international community into Congo. The mission included multilateral institutions (AfDB, EU, UNDP, OCHA, UNICEF, FAO, ILO, UNHCR, WHO) and bilateral donors (France, United States, and Italy). The Bank also chaired a donors' meeting in Paris in early October 2000 in support of the Government's Interim Post-Conflict Program and the IMF's Post-Conflict Emergency Assistance Program. Donor support at the Paris meeting was well beyond original expectations.

23. Donor coordination was also strengthened at an international humanitarian donors meeting and UN Consolidated Appeal (UN CAP), organized in Geneva in July 2000 by UNDP and the UN OCHA. Although support for the UN CAP was mixed, the UN CAP process was important for its symbolism, and for putting Congo back on the world map after years of quasi isolation. France, the United States, and Italy are actively involved in diverse social and humanitarian activities in the field. Eleven UN agencies are present on the ground and active in various areas (e.g., revival of productive activities, emergency needs, reestablishment of basic social services and infrastructure, promotion of democracy and human rights). The EU and AfDB are presently finalizing preparation of their post-conflict strategies. The IMF Emergency Post-Conflict program was approved on November 17, 2000, and the Bank Transitional Support Strategy for Congo considered by the Board on January 16, 2001.

VI. BANK TRANSITION STRATEGY TO SUPPORT THE GOVERNMENT PROGRAM

24. The proposed Post-Conflict Economic Rehabilitation Credit is an integral part of the Bank's Transitional Support Strategy (TSS) to assist the Republic of Congo in the transition from war to sustainable peace. The TSS spans a 24-month period in support of the Government's 2000-2002 Interim Post-Conflict program, in areas where the Bank has a clear comparative advantage. The proposed Credit is the first operation of the TSS that would support implementation of: (a) key structural reforms; and (b) improved governance and better transparency in the management of the country's natural wealth and public funds. These reforms are needed to stabilize and bring about the economic rehabilitation that would pave the way for broad-based poverty reduction, and higher and sustained growth path in the years ahead, after three decades of centrally planned economic management and almost a decade of wars.

25. Other operations under the TSS include: (a) an Emergency Demobilization and Reintegration Project (EDRP) to help demobilize and subsequently reintegrate about 10,000 ex-combatants into civil civilian life; (b) a Transparency and Governance Capacity Building Project to accompany reforms envisaged under the proposed Post-Conflict ERC; (c) an Infrastructure Rehabilitation and Improvement of Living Conditions project to address unemployment issues through labor-intensive micro projects; and (d) an AIDS/HIV project to address the growing threat of AIDS.

VII. MACROECONOMIC FRAMEWORK AND POVERTY SITUATION

26. **Overview**. A middle income country during the 1980s, the Republic of Congo has seen a marked decline in living standards over the past decade, with Congo's GNP per capita decreasing by more than 50 percent from 1982 to 2000. The decline in per capita income, and corresponding increase in poverty incidence (more than 70 percent of Congolese live below the international poverty line of US$1/day), is troubling given the country's vast natural resource endowments (rich oil and forestry resources, fertile land with plentiful rain). One of the largest oil producers in sub-Saharan Africa, Congo has failed to effectively use these resources to build the basic infrastructure of the country and improve the living standards of its people. Characterized by ill-advised borrowing and misguided economic policies (state intervention in almost all industries and services, widespread price controls, inadequate investment incentives, poor labor legislation, distorted trade policies, large and inefficient public enterprises), Congo has experienced economic performance well below its potential during the first three post-independence decades. The three wars of the last decade have accelerated deterioration of Congo's poverty indicators and its social performance.

27. **Health Situation.** The health gains achieved through an extensive health care network built in the early decades following independence in 1960 have been lost in the past decade. Infant vaccination rates for diseases such as measles have steadily dropped, to just 58 percent in 1999, from 99.4 percent 20 years ago. Diseases such as tuberculoses have nearly quadrupled, from 32 per 100,000 in 1985 to 113 per 100,000 in 1999. Spread of HIV/AIDS is another challenge for the country in coming years. A recent study by the Ministry of Health showed that the 15.5 percent of pregnant women are infected with HIV/AIDS in Pointe Noire, and 6.6 percent

in Brazzaville. Due to the deteriorating health system, coupled with AIDS and deaths from the wars, life expectancy has dropped to 48.6 years in 1999 from 53 years in 1993. The health system suffers from a lack of facilities and financial assistance to tackle this challenge. The Government spent only 1.2 percent of GDP for health in 1999, compared to 2.6 percent of GDP in early the 1990s. In addition, the percentage of people with access to clean water and sanitary conditions has dropped over the same period, to 46 and 65.5 percent, respectively, in 1999.

28. **Education.** The primary school enrollment rate in the Congo was one of the highest in sub-Saharan Africa in the mid 1980s. However, gross primary school enrollment rates[1] dropped from 125.2 percent in 1987 to 78.6 percent in 1998. Similarly, gross secondary school enrollment rates have dropped from about 70 percent in the early 1980s to 35.7 percent in 1998. As a result of these declining enrollment rates, literacy rates have also dropped to 59.5 percent, from about 65 percent in the mid 1980s. In recent years, Government spending on education declined to 3 percent of GDP, compared with about 8 percent 20 years ago. Lack of schoolteachers and crumbling infrastructure are some of the key problems facing the sector. In addition to higher budgetary needs for social services, Government institutions and capacity have to be strengthened for better outcomes.

A. Recent Macroeconomic Developments

29. In 1997, real GDP declined by 2.4 percent. It rebounded by 3.7 percent in 1998, before declining again by 3.2 percent in 1999. From 1982 to 2000, GNP per capita fell by more than half, and the number of people on the payrolls in both formal and informal sectors shrunk by about 35 percent, even though the population grew by about 30 percent during the same period. Today, unemployment is widespread at more than 60 percent of the labor force. With the successful implementation of the peace process following the ceasefire accord at the end of 1999, the economy rebounded in 2000 with a real GDP growth of 7.6 percent, higher than previously expected. Due to relatively higher oil prices in 1999 and 2000, the overall fiscal balance moved from deficits (-20 percent of GDP in 1998, -6.2 percent in 1999) to surplus in 2000 (1.2 percent of GDP), for the first time in several years. The primary fiscal balance also improved, from a deficit of –6.3 percent of GDP in 1998, to a surplus of 5.6 percent in 1999, and 8.9 percent in 2000. Despite these positive developments, a close look at Central Government operations shows that on the revenue side, non-oil revenues did not improve much despite the recent surge in economic activity, and contributed only about 22 percent to total revenues, or 6.9 percent of GDP, in 2000. Also on the expenditure side, and faced with huge humanitarian, security, and reconstruction needs, current expenditure including the wage bill and common expenses – a significant proportion of the total government budget – is continuing to increase despite the Government's commitment to curtail its growth. Due to a record level of receipts from oil exports, the current account deficit improved significantly since 1999, decreasing from 26.7 percent of GDP in 1999 to 12.2 percent of GDP in 2000. Thanks to higher export revenues, gross reserves soared from about US$45 million in 1999 to US$223 million in 2000.

[1] Gross primary enrollment is the ratio of all primary students, regardless of age, to the number of primary school age children in the country.

30. The government has also undertaken a number of emergency measures to revitalize the economy, including the heavy capital investment of Government's own resources in the post-war construction effort and resumption of the train route between Pointe-Noire and Brazzaville. As a result of the implementation of such measures, productive activities have resumed, with significant impact on real GDP growth in 2000 without inflationary pressures. Sectors such as manufacturing, commerce, transport, and communications expanded at double-digit growth rates. While the overall non-oil GDP grew at an impressive 15 percent, oil GDP in real terms shrank slightly, by 1 percent. Real private consumption grew at 21 percent in 2000, following a steady decline for more than a decade. Average inflation for 2000 was about 0.3 percent, due mainly to the decline of food prices.

31. **The External Debt Situation.** Congo is one of the most highly indebted countries in the world. As of March 31, 2001, the total outstanding external debt amounted to about US$5.4 billion, of which US$2.9 billion is made up of arrears. Of this outstanding external debt, debt with Paris Club and other bilateral creditors represents 60 percent. Commercial bank debt and multilateral debt represent, respectively, 20 and 11 percent of the total outstanding external debt. Collateralized debt on future oil revenue and debt to a few privileged creditors represent, respectively, 5 and 3 percent of the outstanding external debt. The total outstanding external debt to GDP ratio stands at about 200 percent in 2000, and the total debt to exports ratio is about 235 percent in 2000. In March 31, 2001, outstanding external debt per capita amounted to US$1,784, in contrast with a GNP per capita of only US$630.

32. **World Bank Debt Arrears.** As of May 15, 2001, Congo's arrears to the World Bank totaled US$ 63 million (US$58.3 million to IBRD, and US$4.7 million to IDA). Due to arrears on service payments to the Bank, Congo's withdrawal rights under Bank loans and IDA credits were suspended in 1997, and the country has been in non-accrual status since then. As agreed, the Government has cleared all arrears to IDA and currently carries US$34 million debt arrears to IBRD. The clearance of the remaining US$34 million IBRD debt arrears before disbursement of the single tranche will be made possible by a bridge-financing loan currently being negotiated between the Government of Congo and a third party. Signing of the proposed Credit will not take place until all arrears have been cleared. Credit proceeds will be released only after Credit effectiveness. The proposed IBRD debt arrears clearance approach is consistent with the IMF Post-Conflict program. It will pave the way for the resumption of normal IDA lending to Congo.

33. **Arrears to Other Multilateral and Bilateral Creditors.** Congo is also in non-accrual status with other multilateral institutions including AfDB, the European Investment Bank, Paris Club creditors, and commercial banks. The country is current only on the external debt to a few privileged private creditors associated with the collateralized debt on future oil revenue. Under the ongoing IMF Post-Conflict Emergency Assistance Program, and pending a comprehensive solution to the country's debt under the HIPC Initiative, agreement was reached for the resumption of regular payment of debt falling due to multilateral and bilateral creditors as of April 2001. This has been done with tremendous difficulty. Arrears to AfDB presently amount to about US$86 million and arrears to bilateral Paris Club and other bilateral creditors amount to US$1,456 million. Resolution of the country's external debt constraint under the HIPC framework presently represents the most viable route for a sustainable solution to Congo's major

debt issue. A preliminary debt sustainability analysis will soon be carried out in coordination with the Government to help Congo request substantial debt relief under HIPC Initiative.

B. Outlook and Challenges Ahead

34. Government stabilization measures under its Interim Post-Conflict Program are already paying off. Non-oil GDP is expected to grow by 5.8 percent in 2001 and 6.1 percent in 2002. However, oil production is expected to go down slightly due to a lack of sufficient oil in existing wells and the delay in the construction of new oil wells. As a result, oil GDP is projected to shrink by 0.2 percent in 2001 and 1.5 percent in 2002, and the overall GDP is expected to grow by 3.1 percent in 2001 and 2.7 percent in 2002.

35. In order to achieve broad-based poverty reduction, and higher and sustained growth performance in the years to come, the agenda of reforms ahead is huge. Continued macroeconomic stabilization, with a focus on improvement of the fiscal management taking into account the high vulnerability to oil price shocks, will continue to be a priority. In this context, efficient management of public expenditures, with resource reallocation toward priority sectors (health, education, and infrastructure), should be the driving principle in the years ahead. Reforms envisaged under the IMF-supported Emergency Post-Conflict Assistance Program, as well as the Public Expenditure Review (PER) planned in the context of the Bank's TSS, would pave the way for efficient public expenditure management. Pursuit and deepening of structural reforms to expand the private sector and create jobs for the unemployed will also be critical.

36. Because the oil sector is the most dominant sector of the economy, with about 67 percent of GDP, 95 percent of exports, and 78 percent of total Government revenue in 2000, aggressive diversification of the economy away from oil should figure prominently in the reform agenda. This is particularly important as the agriculture sector contributes only about 4.5 percent to GDP (13.5 percent to non-oil GDP), despite the vast size of the country and its huge natural resources potential. Private sector growth and rural infrastructure are prerequisites to diversifying the economy and achieving equitable growth in the long run. To achieve these objectives, the Government would need to invest in rural infrastructure and an agriculture credit system for the poor, and at the same time build a business-friendly regulatory framework and atmosphere for private sector growth and foreign investment. In addition, since the economy is relatively small, economic integration with neighboring countries should be a priority for improving the country's export base and competitiveness. Moreover, targeted internal transport infrastructure and adequate export promotion schemes will significantly help in achieving higher growth with an impact on poverty reduction.

VIII. THE PROPOSED CREDIT

A. Objectives and Design

37. The main objective of the proposed Post-Conflict Economic Rehabilitation Credit (Post-Conflict ERC) is to help advance the TSS goals of strengthening economic stability and supporting structural reforms. More specifically, the proposed Post-Conflict ERC will encourage the Government to pursue policy and structural reforms needed to stabilize the economy and expand the role of the private sector, including reform of the legal and regulatory framework in key sectors, improved business incentives, and market liberalization. The proposed Post-Conflict ERC would also help implement the privatization program, including restructuring cum privatization of all commercial banks, privatization of all forestry companies, and privatization of all key public utilities (water and electricity, telecommunications, railway, oil downstream activities). These structural reforms would help pave the way for the transition from a state-controlled economy to one that is market based. In addition, the proposed Post-Conflict ERC would also aim at introducing greater transparency and improved governance in the management of key areas (oil and forestry resources, public funds).

38. The proposed Credit, encompassing a number of policy actions, would provide critical financing necessary to advance structural reforms and governance/transparency measures of the Government's 2000-2002 Interim Post-Conflict Program, as outlined in the policy matrix. The Credit will be disbursed in a single tranche of US$37.5 million, to assist the Republic of Congo with the foreign exchange cash flow, immediately after the arrears to the World Bank have been paid. Signing of the proposed Credit will not take place until all arrears have been cleared. Credit proceeds will be released only after Credit effectiveness. The clearance of arrears before disbursement of the single tranche will be made possible by a bridge-financing loan currently being negotiated between the Government of Congo and a third party. The policy package draws on the ongoing policy dialogue with the Government in various sectors, and on the preparatory work carried out in the preparation of the IMF Emergency Post-Conflict Program. The program will be phased to address immediate priorities in the first year, and will be implemented over a two-year period, starting in July 2001 and ending in June 2003.

B. Justification for the Proposed Credit

39. Under the ongoing IMF Emergency Post-Conflict Assistance Programs (June 1998 and November 2000), which followed the 1997 and 1998-99 wars, the Congolese Government embarked on measures aimed at enhancing sound macroeconomic policies and stabilizing the economy. The economy remains poorly diversified, with a very high dependence on oil. More than 70 percent of Congolese still live under the international poverty line of US$1/day; nearly 60 percent of the labor force is unemployed; and social indicators are worsening. Given the country's wealth potential, the pervasiveness of poverty in Congo is unacceptable from a development perspective, as it undermines the sustainability of the very reforms needed to put Congo back on a sustainable higher growth path. In addition, the increasing number of poor and unemployed youth could jeopardize the present peace and stability. Without a strong response of private sector investment in non-oil sectors, a diversified Government resource base, a

responsive financial sector, and improvements in economic infrastructure (post and telecommunication, water and electricity, railway, rural roads), the productive capacity of the economy would remain weak and higher growth would neither be achieved nor sustained. In conjunction with other operations envisaged in the TSS (Transparency and Governance Capacity Building Project, Infrastructure and Improvement of Living Conditions Project), the proposed Credit will aim to correct the identified weaknesses by supporting the deepening of structural reforms, the pursuit of market liberalization, and the continued privatization of public enterprises to foster efficiency and enhance productive capacities.

40. Poor governance over the last four decades has been one of the main sources of conflicts in Congo. With the country's considerable oil resources (it is the third largest oil producer in Africa, after Nigeria and Angola) and extensive forests, the Government of Congo has been the sole manager of oil revenue, sharing the oil wealth through distribution of rewards and employment in oversized public enterprises and bloated bureaucracy. The political struggle over the control of the state in Congo has therefore been synonymous with the economic control of oil. The vast majority of the population (more than 70 percent) in the Congo presently lives under the international extreme poverty line, and successive Governments have failed to use the country's endowment to improve the population's overall living standards. Given the role of Government as the sole manager of oil and forestry resources, transparency as to how income is translated into investments in development will be paramount. It is therefore essential to lay the foundation for better governance and increased transparency in the management of oil wealth and forestry resources, and thereby minimize future tensions over the control of the country's wealth.

C. Features and Content of the Credit

41. The proposed Post-Conflict ERC will support the Government's 2000-2002 Interim Post-Conflict Program, built on two legs around the agenda of: (a) pursuing structural reforms halted by the conflict; and (b) improving governance and transparency in the management of the country's natural wealth and public funds.

42. **The Structural Reforms Component.** This component would help deepen structural reforms through policy measures that would improve macroeconomic performance and create a propitious business regulatory environment to enhance production, promote private sector development, and boost growth. The reform measures envisaged under the proposed Credit will be critical to reverse the deterioration of living standards and remove key constraints on growth. These reforms include: (a) the restructuring cum privatization of one of the three commercial banks, the UCB, as described earlier in the Government's Medium-Term Program; and (b) significant progress toward privatization of all public utilities by launching of a bidding process for the concession of water electricity and electricity companies, and bringing to the point of private concession the railway company.

43. **The Transparency and Governance Component.** Because poor governance and lack of transparency in the management of the country's oil over the last 40 years has been cited as one of the main reasons for the conflicts of the last decade, addressing transparency and governance issues could be achieved in Congo through measures aimed at effective implementation of a framework formalizing and clarifying relations between the state and the national oil company,

the SNPC, as described in the Government Medium-Term Program. The proposed Credit would help achieve that goal.

44. **Other Measures.** The Government's tax collection and revenue administration and expenditure management are being strengthened by measures, including monitoring of actual expenditures, that are being carried out in the context of the ongoing IMF-Emergency Assistance Program. In parallel with the implementation of the Post-Conflict ERC, the Government intends to carry out a Public Expenditure Review to identify budget reform measures to enhance transparency and accountability, and the poverty reduction impact of the budget. These actions would be supported by the accompanying Governance and Transparency Capacity Building operation.

45. **Tranching.** The proposed Post-Conflict ERC is expected to be disbursed in a single tranche of US$37.5 million, to assist the Republic of Congo with the foreign exchange cash flow immediately after the arrears to the World Bank have been paid. Signing of the proposed Credit will not take place until all arrears have been cleared. Credit proceeds will be released only after Credit effectiveness. The policy package of the proposed Post-Conflict ERC draws on the work progress achieved in 1999 and 2000 in the context of the Government's 2000-2001 Interim Post-Conflict Program. Board presentation, Credit effectiveness, and release of the single tranche will be conditioned on the maintenance of a satisfactory macroeconomic framework, as agreed with the Bank and the IMF.

46. **Conditions for Board presentation.** As conditions of Board presentation, the Government has already satisfactorily completed the following actions.

(a) In the structural reforms component:

The restructuring cum privatization of the *Union Congolaise des Banques* (UCB), was completed with its takeover by a foreign private investor, and its restructuring finalized with the split of the bank into a healthy unit taken by the foreign private investor, and a liquidation structure transferred to a Government's agency, the *Caisse Congolaise d'Amortissement,* CCA. Significant progress toward privatization of key public utilities has also been made with the completion of the launching of the bidding process for the concession or leasing of water and electricity companies. A notice was sent for advertisement of the bidding process for the privatization of these two public utilities in local and international newspapers. Also, the notice of request for expression of interest for the private concession of the Congo Ocean railway (CFCO) has been prepared and sent for advertisement in local and international newspapers.

(b) In the governance and transparency component:

The operational framework between the national oil company and Government, underlining transparent mechanisms for oil revenue transfers from the SNPC to Government, was signed by chairman and CEO of SNPC, the Minister of Oil Industry, and the Minister of Finance and Budget on June 29, 2001. This substantial improvement in the transparency of oil revenue management in Congo, a major departure from past opaque practices, provides for transparency in all SNPC transactions, regular publication of actual revenues collected from all sources, revenue forecasts, revenues transferred to the Government, publication of all transactions and trade practices, regular audits, and publication of SNPC financial statements.

47. **Condition for Credit Effectiveness, and Release of the Single Tranche.** Satisfactory clearance of arrears to the Bank, as well as refund of the outstanding balances in the special accounts of the closed operations in the past portfolio, will be required before signing and effectiveness of the Credit.

48. **Monitorable Benchmarks.** As provided under the TSS, performance indicators with which to monitor progress toward achieving the goals of Congo's reform program will be worked out with the authorities. Some of these will be monitored by Bank staff to assess how the proposed Post-Conflict ERC contributes to the success of the Government's efforts. Progress and outcome indicators in the following areas will be monitored in the proposed credit: (a) management of the reform process, (b) management of the external debt and adequacy of the budget, (c) budget formulation and efficiency, and (d) transparency and accountability in the public sector. A matrix summarizing means of verification of progress and outcome indicators of the Credit, as well as important assumptions, follows in Annex B2:

D. *Credit Implementation and Institutional Arrangements*

49. **Overall Coordination of the Credit.** The Government's reform effort, supported by the proposed EERC, will be managed under the overall supervision of a high-level steering committee chaired by the Minister of Finance and Budget (MOF). The committee is composed of key ministers (including the Minister of Forestry Economy, the Minister of Youth, the Minister of Education, the Minister of Health), as well the head of the committee in charge of the implementation and monitoring of the peace accords, and representatives of the Presidency). An inter-ministerial technical committee, headed by a high-level coordinating staff, and comprising senior level staffs from various line ministries, will assist the steering committee on a day-to-day basis and will be responsible for monitoring the program, including policy indicators, and coordinating the activities of all Government agencies involved in implementation of the reform program. The inter-ministerial technical committee will also include NGOs and representatives of civil society. The technical committee will regularly inform the Bank about the progress of implementation. The overall reform program will be reviewed by the Government in close coordination with regular Bank and IMF missions to ensure continued implementation of all reforms within a sound macroeconomic framework.

50. **Disbursement Mechanism.** The borrower will be the Republic of Congo, represented by the Minister of Finance and Budget. Upon approval of the Credit, the MOF will open an account at the regional Central Bank, the *Banque des Etats de l'Afrique Centrale* (BEAC). At the request of the MOF, IDA will deposit the proceeds of the Credit in the Government's deposit account. IDA disbursement will not be linked to specific purchases and, hence, there will be no procurement requirements. In case the proceeds of the Credit are used for ineligible purposes (e.g., to finance items imported from non-member countries, or goods or services on IDA's

standard negative list), IDA will require the borrower to either: (a) return that amount to the account for use for eligible purposes; or (b) refund the amount directly to IDA, in which case IDA will cancel an equivalent undisbursed amount of the Credit. IDA reserves the right to require an audit of the deposit account.

51. **Risk Management.** Recognizing the capacity weaknesses as Congo comes out of the conflict, Government expenditure management and processes are being reinforced to ensure that funds are used appropriately. To improve overall financial integrity and accountability in the management of public funds, improved expenditure controls and management systems, auditing systems and anti-corruption actions are also being addressed in the governance and transparency component of the proposed operation, as well as the accompanying Transparency and Governance Capacity Building Project. For the medium term, further reform of public expenditure processes, and procurement processes are being pursued with IMF and French technical assistance to build the necessary capacity and systems. The Bank will plan in the months ahead to undertake a detailed CFAA (Country Financial Accountability Assessment) that will serve as the basis for an action plan to address identified weaknesses in risk management and public financial accountability over the medium term.

E. Environmental Aspects

52. The program is classified as environmental category C because no component is expected to have environmental impact.

F. Government Ownership and Participatory Approach

53. Government ownership of the Post-Conflict ERC and the program it supports is adequate to ensure its successful implementation. During the Post-Conflict ERC identification, appraisal and post-appraisal missions, broad-based discussions of the Post-Conflict ERC were carried outside of the Government with trade unions, local and international NGOs, the private sector, and donors present in the field.

IX. BENEFITS AND RISKS

A. Benefits

54. The potential benefits of support to Congo in the form of the proposed Post-Conflict ERC largely outweigh the high level of risk. The first benefit is that the Credit would support policies to help stabilize and revive the economy. The second benefit is the resolution of the IDA/IBRD debt arrears constraint. Without the foreign exchange cash flow provided by the proposed operation, the Republic of Congo would find it very difficult to clear its arrears to the Bank, and access to Bank financial and other support would not be restored. The third benefit is the restoration of financial discipline, as the proposed Credit would help restore transparency and better governance in the management of public funds. The fourth benefit is the expected increase of both domestic and foreign private investments, with improvement in business climate and growth spreading to many sectors.

B. Risks

55. In light of Congo's lack of a track record in implementing reform programs, as well as its relatively fragile political situation, the proposed credit is at considerable risk. The first risk is political and social, associated with the failure of the process of transition to democracy to build a political system that would resolve differences without recourse to violence. Such a failure could lead to slippage in implementation, reversals in the reform package, and renewed conflict. In the face of continued political and social instability, the Government's determination to sustain implementation of the privatization program may be called into question, while efforts toward increased transparency and better governance may not figure high on the agenda of priorities. However, the resolve shown at the highest level of the present Government provides assurance that measures agreed in the proposed Credit will be fully implemented. Also, despite the lack of formal programs with IMF or the Bank since 1998, the Government has demonstrated its ability to stay the course of reforms. This gives some reassurance that internal pressures can be managed and policy reversal avoided. Furthermore, to minimize the risk of policy reversal, the program is front loaded and designed to emphasize actions taken prior to Credit approval. Finally, with the proposed launching of a national campaign to raise awareness about the expected benefits of the reforms, support for reforms will be strengthened on a larger scale.

56. The second risk is a possible failure of the international community to provide the needed financial support. Such a failure could hinder the Government's ability to service its debt, reconstruct its administrative and economic infrastructure, and rehabilitate some of the social facilities destroyed (particularly health and education). This will also imply slowing the pace of the peace and national reconciliation process, and thus exacerbating poverty and social distress. The Government is aware that mitigation of this risk is largely dependent on donors' assessment of developments in the political area. In this respect, the successful conclusion on April 14, 2001, of the national dialogue on a new constitution and the convention for peace and national reconciliation is an encouraging sign for continued efforts toward peace and the evolution of democratic institutions in Congo Brazzaville, after years of war and social unrest. Once approved by the National Transition Council by mid- 2001, a constitutional referendum will be organized during the dry season by August-September 2001, to be followed by local, parliamentary, and multiparty presidential elections by the end of 2001-early 2002. The Government's holding of free and fair elections in 2001-2002 will be a critical determinant of continued donor support.

57. The third risk is that the Government's weak institutional and administrative capacity could lead to delays in the implementation of key measures. In this context, the inter-ministerial coordination and follow-up committee will improve its coordination mechanisms and mobilize a full-time technical team to work on program design and implementation. In addition, the accompanying Transparency and Governance Capacity Building Project will provide technical assistance in the design and implementation of several measures supported by the Credit, while technical assistance is also being provided by the AfDB, the EU, and France.

58. The fourth risk is the failure of the private sector to seize the investment opportunities opened by the liberalization of markets and the disengagement of the state from public enterprises. Such a failure could be provoked by the Government's inability to develop a clear direction for an accelerated economic liberalization strategy, which would delay private sector

investment and growth. This could be mitigated by strong and aggressive public relations campaigns abroad on investment opportunities and prospects in Congo Brazzaville. Such a campaign could also build credibility for an aggressive reform program.

59. The fifth risk is the intensification of conflict in neighboring DRC and Angola. The field liaison office recently reestablished in Brazzaville would, inter alia, help monitor the regional security situation and assess its risks on the emerging portfolio, in collaboration with the UN system and donors present in the field.

60. The risks are considerable in Congo, but the cost of no support from the international community would exacerbate the violence, which has been clearly under control since the end of 1999. A lack of support from the international community would also create a lost generation of uneducated youngsters who could be a danger to the society in the years to come, as the social systems further fall in disarray. Uncontrolled violence and continued instability in the Republic of Congo would also have severe implications for peace in the delicate Great Lakes region and for all of Central Africa.

X. RECOMMENDATION

61. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association, and I recommend that the Executive Directors approve it.

James D. Wolfensohn
President
by Shengman Zhang

Attachments
Washington, D.C.
July 6, 2001

ANNEX A – TIMETABLE OF KEY PROCESSING EVENTS

Time taken to prepare the Credit:	4 months
Project prepared by:	Government and IDA staff
ROC Decision Meeting:	May 23, 2001
Appraisal:	June 1
Negotiations:	June 18, 2001
Post-Appraisal:	June 18, 2001
Board Presentation:	July 31, 2001
Effectiveness	August, 2001
Project Completion:	June 2003

This operation was prepared by a team led by Salomon Samen (Task Team Leader, AFTM3) and including Solange Alliali (Senior Counsel, LEGOP), Renée Desclaux (Disbursement Officer, LOAAF), Francesco Sarno (Lead Procurement Specialist), (AFTQK), Prosper Biabo (Consultant), Raju Kalidindi (Consultant), Nadege Nouviale (Program Assistant, AFTM3), Sveto Tintchev (Senior Telecommunication Engineer, CITPO), Ousmane Sissoko (Resident Representative for Gabon and Congo, AFTG1), Karim Jacques Budin (Lead Railway Specialist,INFTD), Andre Ryba (Lead Banking Specialist), Giuseppe Topa (Lead Forestry Specialist, AFTR2), Noureddine Bouzaher (Sr. Energy Economist AFTEG). The peer reviewers were Chukwuma Obidegwu (Lead Economist, AFTM3) Brian Ngo (Lead Economist, AFTM5), and Steve Holtzman (Senior Social Scientist, ECSSD). The Macroeconomics Sector Manager was Cadman Atta Mills, and the Country Director was Emmanuel Mbi.

ANNEX B1 - Matrix of Policy Actions

Objectives	Strategies and Measures	Actions already taken	Actions to be taken	Timing
I. Pursue and deepen Structural Reforms	**Privatization of Banks, key Public utilities and oil downstream activities.**	Privatization of UCB already completed with takeover by COFIPA ,opening balance sheet of COFIPA underway. Split of asset and liabilities of CAIC and BIDC underway. Search of foreign private partners underway.	Finalization of the privatization of all commercial banks. (CAIC,COFIPA, BIDC)	- Board condition. Completion of restructuring cum privatization of UCB and transfer of liquidation of the bank to CCA - Signing of a protocol for CAIC and BIDC (November 2001)
		Preparation of request for bidding proposals completed for the concession of water(SNDE) and electricity (SNE) companies . Bidding to be released soon.	Release of request for bidding proposals for the concession of water(SNDE) and electricity (SNE) companies)	- Board condition
		Preparation of Press release for request for intent for the concession of the railway company (CFCO)completed. Publication of press release soon	Press release of request for intent for bidding proposal for the concession of the railway company (CFCO)	-Board condition
		Action partly completed. Takeover of downstream distribution by Shell and TotalFina-Elf. Intent to purchase the last remaining lot expressed by many oil companies including Agip, Mobil, Texaco, BP, Tamoil, and Engen	Privatization of remaining lot of downstream oil industry	- Signing of ownership transfer agreements with Shell and Totalfina; Release of request for bidding proposals for the privatization of the third lot. September 2001
		Social plan already prepared by a technical committee at the Bank financed Privatization Committee.	Adoption of Social Action Plan accompanying privatization program	- September 2001

Objectives	Strategies and Measures	Actions already taken	Actions to be taken	Timing
I. Pursue and deepen Structural Reforms (continued)	**Improved legal and regulatory framework for business**	Forestry Code already approved by the parliament. Need implementation decree.	Publication of selected implementation decrees of the newly approved forest code covering the following themes : (a) procedures for forestry control and sanctions; (b) civil servants performance rewarding system; (c) ecogards and auxiliary field staff status	- September 2001
		Post and Telecommunication code already drafted with Bank assistance. Need approval and implementation decree. Government's Policy Declaration on Post and Telecommunication already drafted. Decree on the split of post and Telecommunication already drafted	Posts & Telecommunications: Adoption of a Sectoral Policy Declaration, and related regulatory texts, and implementation decrees Publication of decree on the split of Posts and Telecommunications (publication of beginning and closing balance sheets for the two new companies) Posts & telecommunications Code: approbation by the Government & adoption by the parliament, with implementation decrees.	- September 2001 - September 2001 - September 2001
		Water and electricity code already drafted with bank assistance	Water and Electricity Code: approbation by Government & adoption by parliament, with implementation decrees.	- September 2001
			Petroleum Code (law on distribution of oil products and price structure) : approbation by the Government and adoption by the parliament, with implementation decrees.	- September 2001

Objectives	Strategies and Measures	Actions already taken	Actions to be taken	Timing
		Agreement reached on the framework reached	Framework for autonomous Port of Pointe-Noire adopted (revision of legislation to split port authority functions with port operations including participation of users).	- September 2001
I. Pursue and deepen Structural Reforms (continued)	**Improved business incentives**	Investment chart drafted One-stop investment window established. Need to make it fully operational and effective	Investments Chart: approbation by Government and adoption by parliament Strengthening of One stop investment Window	- September 2001
		Committee for the review of the labor code being set up	Labor Code: Launching of a study to review labor code constraints.	- September 2001
II. Improved Governance and Transparency in management of the country's wealth and public funds	**Transparency in Oil Resources management**	Framework signed between the SNPC, the Minister of oil industry, and the Minister of Finance on June 29, 2001.	Signing of framework formalizing relationships between the national oil company, SNPC, and Government;	- Board condition
			Launching of the first audit of SNPC, and subsequent generalization of two annual audits for SNPC	- September 2001
			First report publication of SNPC activities(production, actual revenue and revenue forecast) as provided under the framework between the national oil company, SNPC, and Government	- September 2001

Objectives	Strategies and Measures	Actions already taken	Actions to be taken	Timing
II. Improved Governance and Transparency in management of the country's wealth and public funds (continued)	**Transparency in Forestry Resources**		Assessment of forestry tax collection for current fiscal year; with indication of pursuits, backlog penalties and exonerations; by type of tax, by company and by permit. Projection for next fiscal year.	- September 2001
			Mapping of existing and proposed national protected areas network, with phasing of all steps leading to final protected area status.	- September 2001
	Improved governance and accountability in management of Public funds		Institutionalization of the General auditor's office "Cour des comptes") and publication of related implementation decrees. Effective launching of audit for a few public funds management (effective implementation and respect of legal deadlines for audits of public funds management).	- September 2001 - December 2001
		Review committee set up and headed by General Director of Programming	Review of Public Markets procurement rules, procedures, and practice and direction for change.	-September 2001
III. Post-Conflict ERC Coordination and Monitoring	**Improved coordination and monitoring of the Credit**	Monitoring and follow-up team appointed.	Appointment of Post-Conflict ERC coordinator and staffing of the coordination unit.	-Before Board presentation

ANNEX B2 - PROGRESS AND OUTCOMES INDICATORS/MEANS OF VERIFICATION AND LINKS WITH THE POLICY MATRIX

Development Objectives	Progress Indicators	Outcome Indicators	Means of verification and	Links with the Policy Matrix	Key assumptions
Economic recovery **Improved Management of the reform process**	Degree of momentum in transparently implementing structural reforms	Structural reforms ongoing in a satisfactory manner	Effective actions on all structural reforms agreed in the Post-conflict ERC	Satisfactory completion of structural reforms Board condition as well as all actions agreed under the Medium Term Program	Political will to continue with the privatization program & other reforms
Improved Management of external debt and adequacy of the budget	Commitment to manage the external debt situation, including arrears clearance	Arrears to multilateral creditors cleared and arrears to bilateral and commercial creditors stabilized	Reduction of IDA/IBRD arrears to US$ 30 m, and regular payments of scheduled debt payments + progress towards HIPC	Board presentation of the Credit and satisfaction of disbursement condition + progress towards HIPC	Political will for a definitive solution to the country's debt issue
Public sector management & institutions. **Improved Budget formulation and efficiency**	Timeliness of budget formulation & degree of implementation	Publication of annual audit of accounts of the national oil company(SNPC)	Signing and implementation of the SNPC/Government framework, and regular publication of accounts and operations	Satisfaction of Board condition re: signing of framework between SNPC and Government	Strong willingness at the highest political level to proceed with increased transparency & governance reforms
Transparency and account. in the public sector	Extent to which the authorities monitor the prevalence of corruption & implement sanctions transparently	Regular publication of awards of contracts over CFAF 25 million	Publication in the official journal and private papers of said contracts. Free Publication of sanctions of civil servants (low as well as senior levels) involved in corruption.	Satisfaction of Medium Term Transparency and governance action re: institutionalization of Auditor General and publication of audits of a few institutions managing public funds.	Political will against regulatory forbearance and effective implementation of rules

ANNEX C - LETTER OF DEVELOPMENT POLICY

REPUBLIC OF THE CONGO

UNITY – WORK – PROGRESS
May 4, 2001

LETTER OF DEVELOPMENT POLICY FROM THE GOVERNMENT OF THE CONGO FOR 2001-2002

1. INTRODUCTION

1. In recent years, the social and political scene has been marked by successive armed conflicts which have resulted in heavy losses of human life, caused over one third of the Congolese population to flee their usual place of residence, undermined basic infrastructures and destroyed much of the means of production. At the end of the 1997 conflict, reconstruction needs had been estimated at 500 billion CFA francs. When these estimates are updated to take into account the 1998 and 1999 clashes, the total could reach 1,600 billion CFA francs, which is well above 1999 GDP. These clashes had very dramatic effects on the economic and social fabric. As far as the economy is concerned, non-oil GDP declined by 19 percent over the period 1997-98 and consumer prices fluctuated considerably because markets were inadequately supplied and transport and communications infrastructures had been damaged.

2. The social situation is characterized over this period by considerably insecurity because of population movement and weak economic activity due to the destruction of labor tools and the resulting unemployment, which is estimated to affect over 50 percent of the active population and particularly young people. In addition, the presence of a large number of refugees from the Democratic Republic of the Congo created additional tension resulting from overpopulation. Although the Government mobilized considerable resources to deal with the urgent needs created by the various conflicts, much more is still needed for the reconstruction of basic infrastructures, improvement of living conditions and resettlement and reintegration of displaced populations and demobilized young people.

3. The agreements on a cease-fire in the Republic of the Congo signed on 16 November and 20 December 1999 laid the foundations for a return to peace. To date, significant progress has been made in implementing the Government's program of disarmament, demobilization and rehabilitation, which includes the collection of arms and ammunition and the reintegration into society of former militiamen. Thus, after so many painful and regrettable episodes, the Congo is

back on the road to peace – a peace consolidated by the smooth organization of an all-inclusive national dialogue from 17 March to 14 April 2001.

4. These meetings enabled almost 1,500 delegates from all backgrounds and shades of opinion to talk, exchange views and achieve consensus on the essential issues underlying a calm and peaceful course for the nation. As a result, the route is now mapped out for a return to normal and democratic life, in which the general elections to be held very shortly are the focal point and the rendez-vous desired by Congolese men and women and – why not? – by all friends of the Congo. In 1999, in order to create the social conditions to allow large-scale popular participation in this political normalization process, the Government had already drawn up an Interim Post-Conflict Program (PIPC) for the period 2000-02, which was adopted by the National Transition Council. The main goals of this program are: (a) reconstitution and strengthening of institutional and administrative capacities, by laying the foundations for good governance and application of rules of transparency; and (b) improvement of the macroeconomic framework and of the social climate to stimulate the economy's supply capacity and promote economic growth.

5. In order to achieve these goals, the government intends : (a) to restore the principal macroeconomic balances; (b) to implement structural reforms, including reform of the civil service and privatization of commercial banks and of the largest public enterprises; (c) to rehabilitate basic infrastructures; (d) to combat poverty through creation of jobs (particularly for young people) and to strengthen investment capacities in the social sectors (health and education); (e) to revive agricultural activities and improve food security; (f) to promote economic diversification and subregional integration; and (g) to create a regulatory and institutional framework conducive to business expansion. The formulation of these goals and these ambitions reflects political and social choices including: (a) political pluralism, democracy and freedom of expression; (b) disengagement of the State from productive sectors; (c) entrepreneurial freedom and free competition.

6. The Congolese Government is committed to the pursuit of a development policy backed by a Post-Conflict Economic Rehabilitation Credit (Post-Conflict ERC). In order to launch this policy, it intends to seek the support of the international community and particularly of the World Bank.

2. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM-TERM PROSPECTS

2.1 – RECENT DEVELOPMENTS

7. In recent years, the Congolese economy has been characterized by an erratic pattern reflecting the various social and economic upheavals experienced by the country over this period.

8. For more than two decades, the Congolese economy's growth has been attributable almost exclusively to the performance of the oil sector. However, this heavy dependence of the economy on oil is very risky, particularly because this is a non-renewable resource and the oil market is difficult to control. In addition, account must be taken of the poor governance and social and political upheavals experienced by the country.

9. When civil war broke out in mid-1997, the Congolese economy had already been weakened by years of mediocre economic management and poor governance and by an earlier conflict in 1993-94. In 1996, for example, real GDP was only 1.5 percent above the 1992 level and, at the end of the year, the stock of external debt arrears amounted to almost 50 percent of GDP.

10. Between 1997 and 1999, the deterioration in GDP in real terms went from –2.4 percent to –3.2 percent. As a result, the management of public finances was seriously disrupted: official budgetary procedures were not strictly observed and expenditure on security and humanitarian assistance acquired top priority. In the absence of adequate domestic and external financing, the budget deficit was financed mainly by accumulation of arrears, which resulted in deterioration in the balance of payments and exhaustion of the country's foreign currency reserves. As a consequence, external debt arrears increased, amounting to 94 percent of GDP by the end of 1999.

11. For the financial year 2000, the real growth rate increased significantly, reaching 7.9 percent. This good performance was achieved mainly thanks to the solidity of the oil sector (increase in oil prices, strong dollar).

12. Mainly because of supply disruptions, inflation measured by the consumer price index fluctuated widely between 1996 and 1999, reaching 16.4 percent at the end of 1997 and then falling to 4.1 percent at the end of 1999.

13. The domestic market situation continued to stabilize in 2000, reducing inflation to 2.7 percent.

14. In the budgetary area, official procedures were not properly followed in the period 1996-99. Expenditure was redirected to meet security needs and the urgent demand for food aid for persons affected by the conflict.

15. Budget revenue represented 28 percent of GDP in 1996, compared with 27 percent in 1999. At the same time, current expenditure excluding interest increased from 13.0 percent of GDP in 1996 to 27.0 percent in 1999, thus reducing the primary balance surplus from 10 percent of GDP in 1996 to only 5 percent of GDP in 1999.

16. In 2000, revenue accounted for 27 percent of GDP while expenditure accounted for 26 percent. This can be attributed to the good performance of the oil sector.

17. The financial situation of the three commercial banks, which was already alarming before the outbreak of the 1997 conflict, has seriously deteriorated. The national payments system has ceased to function, which has accelerated the collapse of activity and complicated the management of public finances. To date, only the Union Congolaise des Banques has been repurchased by COFIPA, while the two others are the subject of negotiations between the Government and potential partners.

18. The Government anticipates that the negotiations will be completed by 30 September 2001.

19. With regard to the monetary situation, net State credit (as a percentage of money supply in the broad sense) decreased from 17.2 percent in 1997 to – 19.5 percent in 2000. This was mainly due to the forced accumulation of State deposits as banks suffered from increasing illiquidity and were unable to honor checks drawn on them. These difficulties prevented the economy as a whole from benefiting from sizable bank lending for reconstruction and economic recovery (7.3 percent in 1997 and 9.2 percent in 2000).

20. Over the same period, money supply in the broad sense remained stable (9.5 percent in 1997 and 9.2 percent in 2000).

21. The capital account remained in deficit between 1997 and 1999 because new financing dried up. At the same time, payments under the public debt amounted to 20 percent of GDP and 28 percent of non-factor goods and services.

22. Direct investments and other private inflows remained in surplus, because of the development of oil sector activities. The global balance-of-payments deficit was largely financed by accumulation of new external arrears.

2.2 – MEDIUM-TERM PROSPECTS

23. In the next few years, the oil sector will remain the biggest contributor to budget revenue. According to updated projections, oil output will be 12.9 million tons in 2001 and will continue to decline to 11.8 million tons in 2003, before increasing to 14.4 million tons in 2004. The new deeper offshore oil wells will not offset the declining output of those already in operation.

24. Accordingly, in order to diversify the economy, the Government must envisage an increase in the contribution of the non-oil sector to GNP and job creation, which is a means of promoting social cohesion and an effective weapon in the fight against poverty.

25. Improvement of the country's political and security situation will lead to economic recovery in general and particularly in the sectors of agriculture, forestry, trade, transport and public works. The goal will be to increase the share of the non-oil sector in overall GDP.

26. As far as the social sectors are concerned, the Government is committed to restoring services, particularly in the areas of health, primary health care, education, environmental sanitation, the judiciary and highway maintenance. It will enlist the participation of the private sector in poverty relief by formulating a pilot program to channel external aid (UNDP, EU, ...) towards NGOs and other grassroots organizations.

27. The strategy will concentrate on:

- poverty relief as a catalyst for growth;
- involvement of the people, particularly women and young people, in poverty relief.

28. Implementation of this strategy will require mobilization of considerable financing for sound investment projects focusing on rehabilitation and development of basic social infrastructures, education and health.

29. Public and private investment will increase in response to structural reforms, improvement in the business climate, increased activity and efforts to promote good governance and transparency in the management of public affairs. The growth in non-oil real GDP will be 7.0 percent in 2000 and 6.8 percent by 2005.

30. The current account deficit will decrease from 17.7 percent of GDP in 1999 to 6.6 percent in the period 2000-02. Despite the possibility of a continuous adjustment after the end of the program and a probable rescheduling with Paris Club creditors under Naples terms, large financial shortfalls will continue throughout the period 2002-05, demonstrating the need for continuing aid.

3. GOALS AND STRATEGY OF THE GOVERNMENT'S POST-CONFLICT ECONOMIC REHABILITATION CREDIT

31. The National Forum for Unity, Reconciliation and National Reconstruction, meeting in January 1998, had decreed a return to democratic life and, for that purpose, proclaimed a flexible three-year transition period.

32. A National Transition Council, with 75 members, was established by the Forum and acts as the legislature.

33. A constitutional commission was set up to draft the new Constitution. At the conclusion of the all-inclusive National Dialogue, a preliminary draft of the Constitution was adopted by all Congolese men and women at home and abroad.

34. The Congolese authorities thus resolutely embarked on the road to peace and national reconciliation and committed themselves to restoring the democratic process and preparing free, transparent and fair elections as soon as possible.

35. The Government conducted an administrative census to count the electorate and establish electoral rolls. The terms of reference of a democratization program were drawn up to cover the electoral process and the exercise of human rights. The Government has requested the help of experts from the European Union and the possible participation of other donors.

36. As a result of the Government's efforts to achieve its goal of creating all the prerequisites for political and social stability in order to minimize the "country risk" and its commitment to peace and national reconciliation, the Congo was classified in phase 2 of the United Nations security classification and cease-fire agreements were concluded with militiamen active in the southern regions of the country on 16 November and 29 December 1999 in Pointe-Noire and Brazzaville respectively.

37. In this country in the throes of administrative upheavals, one of the Government's major goals is to stabilize the political situation while consolidating democratic power, despite the successive crises.

38. In view of economic globalization and the intensification of international competition, the Government has formulated a program to enhance competitiveness, with the following main elements:

- promotion of domestic and foreign competition;
- gradual elimination of quantitative restrictions and non-tariff barriers;
- full implementation of the Regional Reform Program, particularly as regards intra-Community trade;
- rationalization of national taxes and import duties without obstructing business expansion;
- rationalization of investment incentives and facilitation of business start-ups;
- application of OHADA rules.

39. Over 68 percent of the Congo's foreign trade is with the European Union and over 28 percent is with African countries, including 6 percent with CEMAC countries. The Congolese economy is thus highly vulnerable to external shocks. With a population of 2.8 million, the Congo is still a small market. A strategy must therefore be devised for the development of subregional trade, in view of the geographical location of the Congo, which is destined to be a transit country.

40. Accordingly, within the framework of sub-regional integration, the Government intends to take advantage of its membership in sub-regional economic groupings, particularly CEMAC and CEEAC.

41. As an integrated and multidimensional economic and monetary community, CEMAC is the right institutional framework for harmonious and interlinked development of member States via coordination of macroeconomic policies, stability of the common currency and creation of sectoral policies.

42. In order to accelerate the process of subregional integration, efforts are being made by CEMAC Heads of State, who are determined to facilitate the circulation of persons and goods.

43. This improvement is being sought as part of a global process respecting the interests of each country.

44. The reforms under way, combined with transport infrastructure improvements, are designed to stimulate intra-Community trade, which should generate jobs and additional revenue for State budgets in the form of fiscal revenue.

45. With a view to restoring a modernized public administration, the Government has set itself the following goals:

- provision of an urgent operational response to problems of economic and financial management;
- development of strategic programming capacities, starting with a few priority sectors;
- initiation of administrative reform, including decentralization, in public government services, as the first stage in a global process of modernization of public administrations.

46. The Government will concentrate on management of public finances, direction of the economy, strategic management and horizontal and vertical management of all resources. Accordingly, it plans to implement a institutional support project to strengthen the management capacity of the State's administrative structures responsible for the macroeconomic framework in the Congo.

47. This project is designed to:

- identify the various departments concerned, as well as the selected components in these departments;
- evaluate available human resources;
- ensure that these human resources are adequate for the management of the selected components;
- evaluate equipment and materials requirements for the execution of the various tasks.

The Government is requesting financing for this project from external partners.

48. Under its program for 2000-01 from the post-conflict emergency aid facility for which it received support from the International Monetary Fund, the Government has identified the following priority tasks: meeting emergency humanitarian and peace-building assistance needs; restarting of certain basic infrastructures; restoration of macroeconomic balances; rehabilitation of institutions essential to the operation of the economy, such as the banks and the civil service; continuing the liberalization process in order to achieve economic efficiency.

49. In addition, the program of reforms envisaged under the Post-Conflict Economic Rehabilitation Credit (Post-Conflict ERC) would lay the foundations for a return to sizable, regular and sustained growth, in view of the fragility of the economy (inadequate economic growth rates) and of society (greater poverty, excessive under-employment) following the many conflicts which took place over the last decade. The action program would therefore concentrate on the following main areas: (a) continuation and strengthening of the structural measures needed to improve the macroeconomic framework and create an environment conducive to the expansion of the private sector; (b) strengthening of good governance and improvement of transparency in the management of public resources; (c) strengthening of the economy's competitiveness, particularly through sustained export growth; (d) poverty reduction; (e) subregional integration; (f) strengthening of administrative and institutional capacities and of the rule of law; (g) rehabilitation and development of social sectors; (h) diversification and development of non-oil sectors.

4. ACTIONS PRIOR TO LOAN DISBURSEMENT

50. The Government is committed to reducing the stock of debt arrears owed to IBRD/IDA to a maximum not exceeding 30 million dollars, as decided in the agreement with the World Bank on the clearance of accumulated arrears, which on 5 March 2001 amounted to about 50 million dollars. To this end, the Government has already mobilized about 28 million dollars to honor the commitments made to the World Bank.

51. Following payment of the above-mentioned amount, the World Bank will therefore make a loan to the Congolese Government of about 35 million dollars to reimburse the commercial bank which will help to arrange the bridge-financing loan. Combined with the structural measures set out in the annex, clearance of the Congo's stock of arrears owed to the World Bank would make it possible for the Bank to resume provision of financing to the Congo starting on July, 2nd 2001, thanks to the World Bank's provision of the Post-Conflict Economic Rehabilitation Credit (Post-Conflict ERC).

52. In view of the heavy debt-servicing burden and pending a global and far-reaching solution to the critical problem of indebtedness (Heavily Indebted Poor Countries Initiative), the Government wishes to obtain World Bank assistance to relieve the burden of IBRD debt servicing.

5. LOAN DISBURSEMENT PREPARATIONS

53. With the prospect of resumption of Bank financing, and on the occasion of a World Bank mission to Brazzaville, the Government has committed itself to settling the five special accounts currently being repaid to IDA.

54. The Government has undertaken to make these repayments as soon as possible so as not to delay disbursement of the first tranche of the Post-Conflict ERC.

55. The first tranche, equivalent to 30 million dollars, will be paid directly to the commercial bank which will provide the bridge-financing loan and 5 million dollars in the form of budgetary assistance, in the credit denomination. The corresponding payment instructions will be issued upon request for the withdrawal of funds. This request will be accompanied by a letter from the commercial bank giving the bank references and by a letter from the Minister of Finance designating authorized signatories.

56. In order to ensure timely transfer of funds, these documents should reach IDA a few days before presentation of the Post-Conflict ERC to the Board of Governors of the World Bank. The IDA disbursement will be honored upon entry into force of the Credit (Post-Conflict ERC).

57. Accordingly, the Government undertakes to create the prerequisites for disbursement of this and other loans.

58. It will also define and create a structure to follow up and coordinate the Post-Conflict ERC and the administrative capacity-building credit.

59. This structure will be responsible for follow-up and reporting not only to the Government but, above all, to the World Bank on the use of the credit.

60. The specific actions and measures relating to each area of reform are summarized in the annex.

6. STRUCTURAL REFORMS AND INSTITUTION-BUILDING

61. In addition to restructuring the banks, the Government proposes to resume and step up the structural reforms which were interrupted by the renewed outbreak of war in 1998 and 1999. To this end, the government will finalize the restructuring and privatization of the commercial banks (CAIC, UCB, BIDC) as soon as possible so as to reduce costs and restore the confidence of private economic operators, without which it is difficult to imagine harmonious development of the business climate. So far, only UCB has been privatized, while negotiations are under way with partners for CAIC and BIDC. The new target date is 30 September 2001.

62. At the same time, the Government intends also to pursue privatization of the following other public enterprises: SNDE, SNE, ONPT, ATC. It should be noted that the protocol of agreement between the Government and the HYDRO-CONGO partners was signed on May, 15 2001. In August 2001, the actual transfer of State assets to the private operators will begin (cf. matrix of actions).

63. In addition, the Government plans to devote special attention to reform of the civil service; the results of the civil service survey should be published shortly.

64. After extensive national consultations, the Government has decided to institute a wide-ranging reform to create a modern public service managed according to rules that will make it more efficient.

65. An important element of this reform will be lay-offs designed to reduce staffing levels to those necessary for the optimal performance of the tasks of government.

66. In particular, the reform will introduce a merit-based system of remuneration and promotion.

67. The Government has also concluded preparations for the introduction of a suitable regulatory framework for the principal sectors which will henceforth be open to competition. The water, electricity and telecommunications codes will shortly be submitted to the transition Parliament. The forestry code was already adopted by Parliament in November 2000.

68. The Government remains determined to continue its efforts to create an efficient and competitive market economy. In this connection, its strategy, particularly over the next few years, will be to enhance dialogue with the private sector, to promote competition in the performance of economic activities, to improve the functioning of the judiciary, particularly in

the resolution of conflicts concerning business law, and to eliminate existing bottlenecks and obstacles.

69. Recognizing the importance of promoting the private sector in order to benefit from the opportunities created by the privatization of public sector enterprises, the Government is resolved to remove all administrative and regulatory obstacles to start-ups and investment.

70. The national investment charter is awaiting adoption by the Government; a survey will be conducted shortly with a view to revising the labor code.

71. The Government intends to encourage private investment by important changes relating to taxation and employment, with the goal of making the tax system a modern instrument of development and entrepreneurship.

7. TRANSPARENCY AND GOOD GOVERNANCE

73. The Government is convinced that good governance and greater transparency promote democracy and improve the economic situation. It therefore plans to focus on:

- the need for legislation to be clear and known to all concerned;
- a strong and credible judiciary;
- speed and transparency in the decision-making process;
- the possibility of punishing all reprehensible actions.

74. The Government intends to conduct major structural reforms involving far-reaching institutional changes, in order to promote economic and social management that is effective and conducive to development. With this aim, it plans to reform the bidding and public contracting system.

75. These efforts towards transparency will also involve:

- formalization of the relationship between SNCP and the State;
- organization of the first audits of SNPC and introduction of a system of regular audits of this company.

76. The Government also proposes to extend this exercise to the forestry sector and to other public enterprises.

77. For this purpose, the auditors-general ("Cour des Comptes") have just been appointed by presidential decree of 26 May 2001 and will be installed before the end of 2001.

78. With the support of the World Bank, the Government intends to adopt machinery and rules to promote meticulous, efficient and transparent management of public resources, particularly oil, forest and other resources.

ANNEX D - SOCIAL INDICATORS

Congo: Selected Poverty and Living Standard Indicators

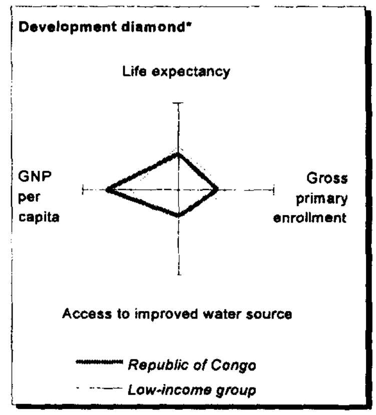
	Congo	**Sub-Saharan Africa**
(in percent, unless otherwise specified)	**Latest single year (1997-1999)**	
Population in millions (1999)	2.85	642
Population growth (1999)	2.8	2.4
Fertility rate (1998)	6.0	5.4
GNP Per Capita in US$ (1999) (Atlas method)	670	500
GNP in US$ billions (1999) (Atlas method)	1.9	321
Poverty rate	...	...
Extreme poverty rate (1995)	70	...
Child malnutrition (1999)	16	32
Infant mortality rate (per thousand, 1999)	81	106
Infant immunization against measles	58.4	48
Life Expectancy at birth (years, 1998)	48.6	50.4
HIV/AIDS (between 15-49 age) (1997)	7.8	8
Public Health Expenditure (% of GDP) (1999)	1.2	2.4
Physicians (per 1,000 people)	28.6	32
Urban population (1999)	73.4	34
Access to sanitation (1999)	65	35
Access to safe water (1997)	46	43
Telephone lines (per 1000 people)	4.0	14
Literacy rate (1999)	59.5	61
Public Education Expenditure (% of GDP) (1999)	3.0	6.1
Gross primary school enrollment (1998	78.6	78
Male	81.9	85
Female	75.5	71

Sources: World Development Indicators (World Bank) and UNDP.

ANNEX E - REPUBLIC OF CONGO AT A GLANCE

5/23/01

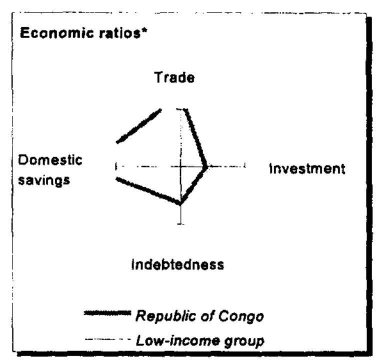
POVERTY and SOCIAL	Congo, Rep.	Sub-Saharan Africa	Low-income
2000			
Population, mid-year *(millions)*	2.9	643	2,417
GNP per capita *(Atlas method, US$)*	630	490	420
GNP *(Atlas method, US$ billions)*	1.8	316	1,008
Average annual growth, 1994-00			
Population *(%)*	2.8	2.6	1.9
Labor force *(%)*	2.6	2.6	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty *(% of population below national poverty line)*	70	..	..
Urban population *(% of total population)*	73	34	31
Life expectancy at birth *(years)*	49	47	59
Infant mortality *(per 1,000 live births)*	81	92	77
Child malnutrition *(% of children under 5)*	16	..	..
Access to an improved water source *(% of population)*	46	55	76
Illiteracy *(% of population age 15+)*	40	39	39
Gross primary enrollment *(% of school-age population)*	79	78	96
Male	82	85	102
Female	76	71	86



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

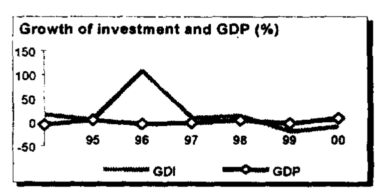
	1980	1990	1999	2000
GDP *(US$ billions)*	1.7	2.8	2.2	2.8
Gross domestic investment/GDP	35.8	15.9	27.6	17.3
Exports of goods and services/GDP	60.0	53.7	72.4	83.2
Gross domestic savings/GDP	35.7	23.8	46.1	60.7
Gross national savings/GDP	26.2	6.8	13.0	18.3
Current account balance/GDP	-9.8	-9.3	-27.0	-12.0
Interest payments/GDP	2.2	4.3	22.0	14.5
Total debt/GDP	89.5	138.9	231.6	200.0
Total debt service/exports	10.6	35.3	23.4	21.0
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	.

	1980-90	1990-00	1999	2000	2000-04
(average annual growth)					
GDP	3.3	-0.4	-3.2	7.6	4.1
GNP per capita	-0.1	-3.4	-6.1	4.8	1.0
Exports of goods and services	5.1	5.6	0.7	4.0	0.3

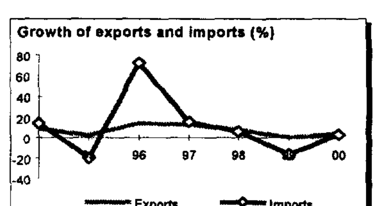


STRUCTURE of the ECONOMY

	1980	1990	1999	2000
(% of GDP)				
Agriculture	11.7	12.9	8.4	5.4
Industry	46.6	40.6	61.3	71.9
Manufacturing	7.5	8.3	5.5	3.5
Services	41.7	46.5	30.4	22.7
Private consumption	46.8	62.4	36.9	28.1
General government consumption	17.6	13.8	17.0	11.3
Imports of goods and services	60.1	45.8	53.9	39.9



	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture	3.4	1.3	-6.5	8.4
Industry	5.2	2.6	1.3	4.4
Manufacturing	6.8	-2.8	-5.5	20.9
Services	2.1	-5.5	-9.4	12.6
Private consumption	3.3	-1.5	-11.1	20.1
General government consumption	2.5	-6.6	-13.2	2.8
Gross domestic investment	-12.6	17.9	-19.0	-10.1
Imports of goods and services	-4.4	9.5	-16.0	3.0
Gross national product	3.1	..	..	..

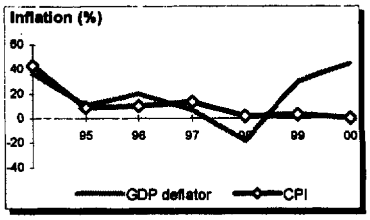


Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete. Latest year for improved water source data is 2000.

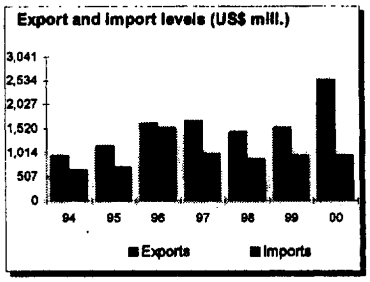
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	7.3	-4.8	3.1	0.3
Implicit GDP deflator	20.1	-0.9	30.2	44.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	27.4	26.9	27.0
Current budget balance	..	-2.4	0.3	8.2
Overall surplus/deficit	..	-6.6	-5.9	1.1



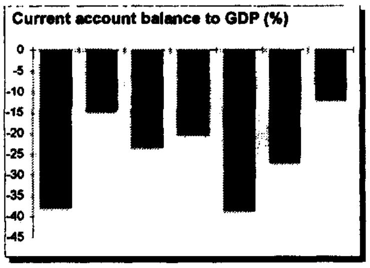
TRADE

	1980	1990	1999	2000
(US$ millions)				
Total exports (fob)	..	1,363	1,563	2,559
Fuel	..	1,050	1,434	2,403
Timber	..	161	147	156
Manufactures	..	35	..	..
Total imports (cif)	..	580	955	966
Food	..	30	21	23
Fuel and energy	..	129	221	229
Capital goods	..	237	412	353
Export price index *(1995=100)*	..	113	97	152
Import price index *(1995=100)*	..	96	90	92
Terms of trade *(1995=100)*	..	118	108	166



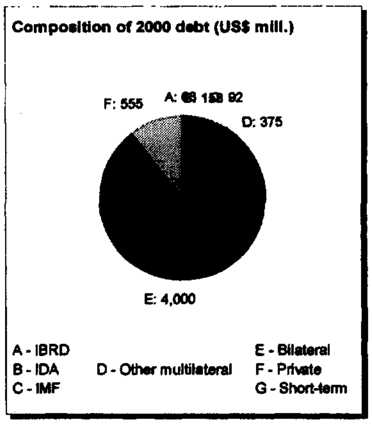
BALANCE of PAYMENTS

	1980	1990	1999	2000
(US$ millions)				
Exports of goods and services	1,021	1,502	1,668	2,636
Imports of goods and services	1,025	1,282	1,480	1,636
Resource balance	-4	220	188	1,000
Net income	-162	-475	-771	-1,327
Net current transfers	-1	-7	5	4
Current account balance	-167	-261	-592	-346
Financing items (net)	226	261	551	168
Changes in net reserves	-59	0	41	178
Memo:				
Reserves including gold *(US$ millions)*	93	10	45	223
Conversion rate *(DEC, local/US$)*	211.3	272.3	614.9	709.0



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US$ millions)				
Total debt outstanding and disbursed	1,526	3,889	5,460	5,243
IBRD	39	164	66	63
IDA	22	75	166	158
Total debt service	109	531	391	460
IBRD	8	18	6	3
IDA	0	1	2	8
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	88	55	-136	-146
Private creditors	400	-267	-179	183
Foreign direct investment	..	..	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	35	16	0	0
Disbursements	3	2	0	0
Principal repayments	4	6	15	15
Net flows	-1	-5	-15	-15
Interest payments	4	13	5	4
Net transfers	-5	-17	-20	-19



ANNEX F - KEY ECONOMIC INDICATORS

Indicator	Actual			Estimate		Projected			
	1996	1997	1998	1999	2000	2001	2002	2003	2004
National accounts (as % of GDP)									
Gross domestic product[a]	100	100	100	100	100	100	100	100	100
Agriculture	9	9	11	8	5	6	6	6	5
Industry	51	57	46	61	72	67	63	58	55
Services	40	34	43	30	23	27	31	36	40
Total Consumption	61	61	75	54	39	47	65	70	74
Gross domestic fixed investment	26	28	35	26	16	18	17	17	16
Government investment	5	4	2	3	4	5	5	5	5
Private investment	21	24	33	23	12	13	12	12	11
Exports (GNFS)[b]	64	72	65	72	83	79	75	66	60
Imports (GNFS)	51	61	78	54	40	46	58	53	50
Gross domestic savings	39	39	25	46	61	53	35	30	26
Gross national savings[c]	4	6	4	13	18	9	9	12	11
Memorandum items									
Gross domestic product (US$ million at current prices)	2541	2323	1950	2357	3176	2931	3149	2856	2966
GNP per capita (US$, Atlas method)	..	..	690	670	630	..	..	..	..
Real annual growth rates (%, calculated from 1978 prices)									
Gross domestic product at market prices	-4.3	-2.4	3.7	-3.2	7.6	3.1	2.7	4.5	6.5
Gross Domestic Income	41.8	-1.8	-18.2	20.0	9.0	4.0	5.3	6.1	6.0
Real annual per capita growth rates (%, calculated from 1978 prices)									
Gross domestic product at market prices	-6.8	-5.2	1.1	-6.0	4.5	0.1	-0.3	1.5	3.4
Total consumption	-12.1	-5.9	-4.8	-14.1	13.6	3.7	4.8	3.8	6.6
Private consumption	20.9	-42.0	9.5	-13.7	16.6	4.4	5.6	4.4	7.1
Balance of Payments (US$ millions)									
Exports (GNFS)[b]	1622	1670	1257	1668	2636	2498	2373	2241	2210
Merchandise FOB	1564	1587	1150	1562	2559	2390	2214	2062	2023
Imports (GNFS)[b]	1308	1377	1613	1480	1636	1629	1811	1801	1841
Merchandise FOB	586	649	559	699	767	822	903	882	907
Resource balance	314	293	-356	188	1000	869	562	441	369
Net current transfers	-16	-2	9	5	4	-18	-19	-20	-19
Current account balance	-593	-475	-755	-592	-346	-421	-280	-175	-205
Net private foreign direct investment	587	145	299	85	101	140	146	87	136
Long-term loans (net)	..	..	..	..	..	..	..	..	..
Official	-285	-224	-162	-136	-146	-138	-139	-150	-157
Private	..	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & ommissions)	..	..	..	..	..	..	..	..	..
Change in reserves[d]	-17	20	69	-60	-169	-165	-102	-170	-33
Memorandum items									
Resource balance (% of GDP)	12.4	12.6	-18.2	8.0	31.5	29.6	17.9	15.4	12.4
Real annual growth rates (YR78 prices)									
Merchandise exports (FOB)	19.3	7.9	6.7	-1.6	5.4	2.3	4.2	-5.4	-0.9
Primary	14.8	13.9	15.5	5.3	-3.3	-10.4	12.8	-0.5	-9.6
Manufactures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Merchandise imports (CIF)	119.1	-30.3	-8.7	6.1	-0.6	-2.3	5.8	1.3	0.4

(Continued)

Republic of Congo - Key Economic Indicators
(Continued)

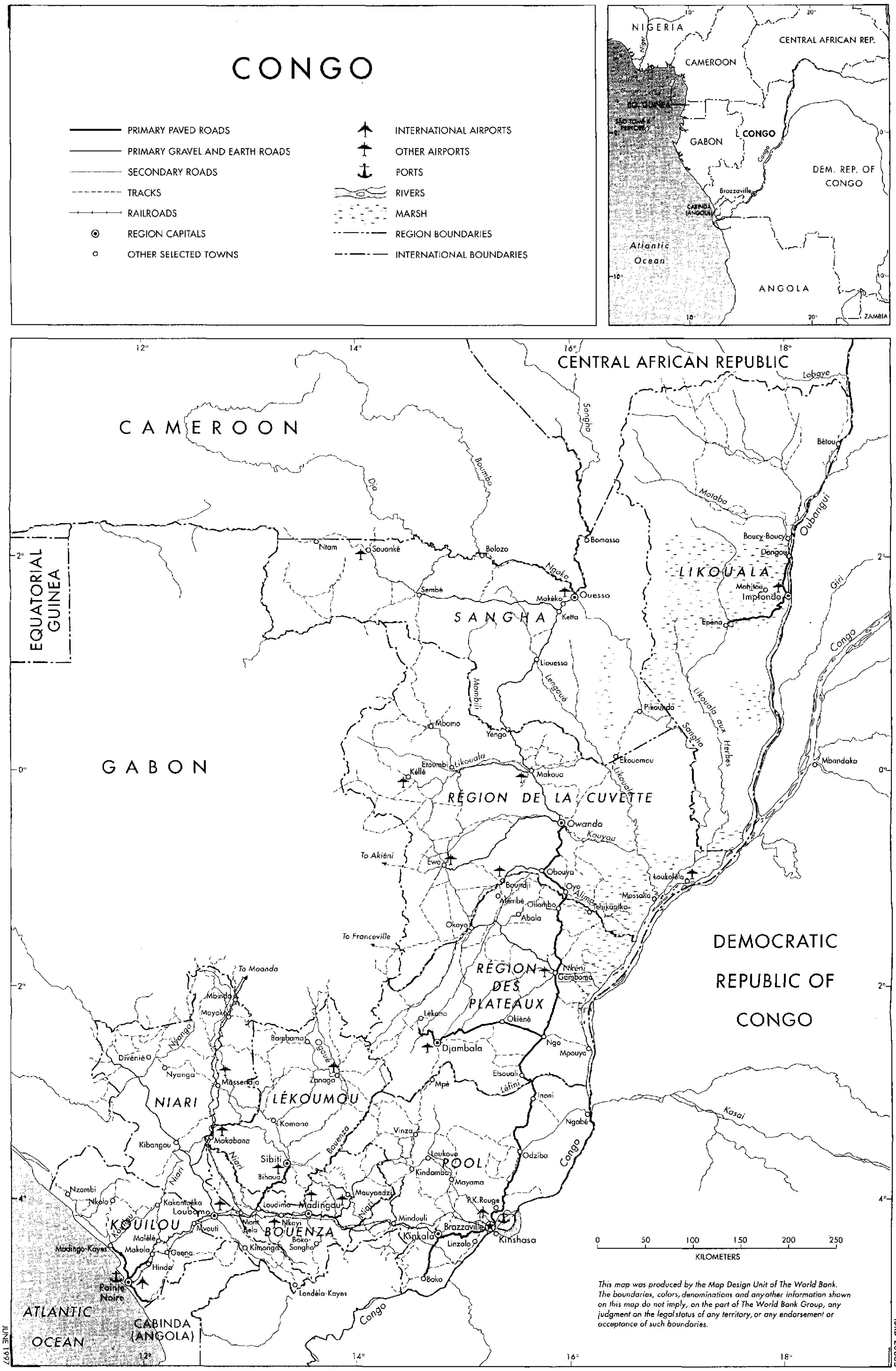
Indicator	Actual			Estimate			Projected		
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Public finance (as % of GDP at market prices)[e]									
Current revenues	27.9	28.6	22.9	26.9	27.0	29.9	28.1	26.4	25.0
Current expenditures	24.8	34.3	38.1	26.7	18.9	16.4	15.4	15.5	15.2
Current account surplus (+) or deficit (-)	3.0	-5.7	-15.2	0.3	8.2	13.5	12.7	10.8	9.8
Capital expenditure	8.0	3.4	4.7	6.1	7.1	9.4	10.2	8.9	8.4
Foreign financing	75.4	11.0	-13.3	-12.2	-10.7	-8.0	41.0	-5.2	-2.9
Monetary indicators									
M2/GDP	14.2	14.2	14.6	13.9	9.7	12.1	11.8	11.2	11.3
Growth of M2 (%)	15.7	4.5	-12.8	19.9	9.2	12.0	9.0	8.5	9.3
Private sector credit growth / total credit growth (%)	83.7	28.9	66.1	-45.6	45.6	52.9	94.7	139.2	53.7
Price indices(YR78 =100)									
Merchandise export price index	132.0	124.1	84.4	116.4	182.8	165.3	147.0	144.6	143.2
Merchandise import price index	125.4	114.7	111.7	113.7	115.7	118.0	120.3	122.7	124.9
Merchandise terms of trade index	105.2	108.2	75.5	102.4	157.9	140.1	122.2	117.8	114.6
Real exchange rate (US$/LCU)[f]	73.5	75.9	78.1	79.0	79.2	79.5	79.7	79.9	80.1
Real interest rates									
Consumer price index (% change)	10.2	13.2	1.8	3.1	0.3	2.0	2.0	2.0	2.0
GDP deflator (% change)	20.2	6.9	-18.2	30.2	44.6	-12.4	4.2	3.3	1.9

a. GDP at market prices
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Consolidated central government.
f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.

ANNEX G - STATUS OF BANK GROUP OPERATIONS IN CONGO

Since 1997, the Republic of Congo has been in non-accrual status. As a result, all project disbursements came to a halt in 1997. The last remaining project in the portfolio, the Privatization and Capacity Building Project, approved by the Board in 1995, was closed at the end of 1999. An IDF Post Conflict emergency grant, amounting to US$0.9 million, to finance technical assistance in support of the reconstruction and on-going economic reforms efforts was approved in June 1998, but could not be implemented as a new cycle of violence resurged in December 1998. With return to security normalcy, and the signing at the end of 1999 of peace accord and cessation of hostilities which are holding very firmly, another IDF Post Conflict emergency grant, amounting to US$1 million was approved in February 2001.

Republic of Congo			
Status of Bank Group Operations (Operations Portfolio)			
		As Of Date 04/24/2001	
Closed Projects	**21**		
IBRD/IDA *			
Total Disbursed (Active)	0.00		
of which has been repaid	0.00		
Total Disbursed (Closed)	375.00		
of which has been repaid	202.10		
Total Disbursed (Active + Closed)	374.99		
of which has been repaid	202.07		


CONGO
PRIMARY PAVED ROADS
PRIMARY GRAVEL AND EARTH ROADS
SECONDARY ROADS
TRACKS
RAILROADS
REGION CAPITALS
OTHER SELECTED TOWNS
INTERNATIONAL AIRPORTS
OTHER AIRPORTS
PORTS
RIVERS
MARSH
REGION BOUNDARIES
INTERNATIONAL BOUNDARIES
NIGERIA
CAMEROON
CENTRAL AFRICAN REP.
EQ. GUINEA
GABON
CONGO
DEM. REP. OF CONGO
Brazzaville
CABINDA (ANGOLA)
Atlantic Ocean
ANGOLA
ZAMBIA
CENTRAL AFRICAN REPUBLIC
CAMEROON
EQUATORIAL GUINEA
GABON
DEMOCRATIC REPUBLIC OF CONGO
SANGHA
LIKOUALA
RÉGION DE LA CUVETTE
RÉGION DES PLATEAUX
NIARI
LÉKOUMOU
POOL
KOUILOU
BOUENZA
ATLANTIC OCEAN
CABINDA (ANGOLA)
Ouesso
Impfondo
Owando
Djambala
Sibiti
Madingou
Brazzaville
Kinshasa
Pointe Noire
Kinkala
Bétou
Boucy-Boucy
Dongou
Epena
Bomassa
Souanké
Bolozo
Sembé
Makoua
Ewo
Kellé
Mbomo
Oyo
Gamboma
Loubomo
Kindamba
Mindouli
Boko
Linzolo
Nkayi
Mossendjo
Mbinda
Mayoko
Kibangou
To Akiéni
To Franceville
To Moanda
Congo
Oubangui
Sangha
Likouala
Alima
Niari
Kasai
0
50
100
150
200
250
KILOMETERS
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JUNE 1997
IBRD 28865